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RUEHLM/AMEMBASSY COLOMBO 0706
RUEHKA/AMEMBASSY DHAKA 0501
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RUEHIL/AMEMBASSY ISLAMABAD 4434
RUEHBUL/AMEMBASSY KABUL 2724
RUEHKRT/AMEMBASSY KATHMANDU 0745
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C O N F I D E N T I A L TASHKENT 000899

SIPDIS

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TAGS: PGOV PREL ECON KCOR ETRD KS UZ

SUBJECT: SOUTH KOREA PLAYS ALONG WITH UZBEK DREAMS OF AIR
CARGO HUB IN DESERT

REF: TASHKENT 577

Classified By: Political Officer Tim Buckley for reasons 1.4 (B,D)

¶1. (C) Summary: Surprised by the front page coverage of the Ambassador's July 22 meeting with President Karimov, the South Korean Embassy sent Second Secretary See-Hong Pak to call on poloff on July 29 for a readout of evolving U.S.-Uzbek relations. Pak noted that it appears Russia's influence is presently waning while the U.S. is gaining in stature. Pak also confirmed that South Korean-Uzbek relations have remained consistently strong but that, despite high-level visits and warm words, the business climate remains poor. Pak confided that Korean Airlines secured an agreement to launch three-times weekly passenger service to Tashkent by accepting a request by Karimov for its cargo division to make refueling stops at the Navoiy Airport in western Uzbekistan on Milan-bound cargo flights. The Koreans will bring "know-how" to the budding desert airport, but will not make any investments because "it does not make financial sense." The South Koreans are chiefly concerned with business issues and so avoid friction with Uzbekistan over human rights issues, but like everyone else the South Koreans are frustrated by the slow pace of economic progress. End summary.

U.S.-Uzbek Relations Raising Eyebrows

¶2. (C) Like other diplomatic missions in Tashkent, Pak said the South Korean Embassy was surprised by the front-page photo and articles on July 23 heralding the Ambassador's meeting with President Karimov. He wanted a readout of the meeting, and said his mission already took notice of the more frequent visits by U.S. officials, including CENTCOM Commander Admiral William Fallon in January, A/DAS Pamela Spratlen in March, Assistant Secretary Richard Boucher in May, and now DAS Krol on the heels of a Presidential meeting for the Ambassador. (Comment: Pak's comments indicated the South Koreans welcome closer U.S.-Uzbek ties, which may help progress business issues, which are South Korea's chief interests in Uzbekistan. End comment.) Pak also noted that signs of a thaw with the U.S. are happening "amidst apparent

worsening relations" with Russia. He cited Gazprom losing out on a gas deal to a Malaysian company and the sudden renaming of Russian streets (reported in reftel) as noticeable signs.

South Korea-Uzbek Relations Solid, if Not Satisfying

¶ 13. (C) While the U.S. has had to work on repairing damaged relations with Uzbekistan, Pak confirmed that South Korea has consistently enjoyed relatively strong relations with the Uzbeks. Prime Minister Han Seung-Soo visited Tashkent in May, and Pak said that President Lee Myung-bak is planning to visit in the near future. He mentioned that the two presidents "have a personal relationship" dating to Karimov's state visits to South Korea when Myung-bak was mayor of Seoul. Karimov was also one of the first to meet with Myung-bak in Seoul after his inauguration in February.

¶ 14. (C) However, Pak said that warm meetings and celebrated agreements have rarely brought about the major economic impact the South Koreans hoped for. Pak conceded that South Korea is primarily interested in economic aspects of the relationship, and they do not irritate the Government of Uzbekistan by pressing uncomfortable human rights issues like Western countries do. Pak noted the number of authorized Uzbek laborers working in Korea is increasing, with 7,600 Uzbeks offered work contracts through official channels. Pak confirmed that corruption in the Uzbek Ministry of Labor was previously a problem as officials would sideline applications submitted without bribes. While Pak said this has been

resolved, he was unable to provide any information on what new procedures, if any, were actually deployed to stop this.

Few Big Companies, Small Entrepreneurs Struggle

¶ 15. (C) Pak noted that South Korea is disappointed that essentially only two major South Korean companies are doing business in Uzbekistan -- Korea Telecom and Daewoo -- despite all of the attention on developing economic ties over the years. (Note: This Daewoo sells commercial and light industrial equipment and is not to be confused with the automotive entity. End note.) He said there are numerous small entrepreneurs who own factories in Uzbekistan (for instance, manufacturing paper products for distribution in Russia) and get involved in other business ventures. These businessmen often end up tripped up by the same bureaucracy and unpredictable government policies that all foreigners face here, and Pak said "we have the identical experiences and concerns as you in this regard."

¶ 16. (C) Nonetheless, Pak said that South Korea remains optimistic about the long-term prospects for economic growth in Uzbekistan. He said South Korea itself offers the Uzbeks a model for how a country can be transformed through rapid economic growth. He said South Korea is patient, and he likened the difficult working environment for Korea Telecom to its experience in the Russian Far East during the 1990s, when at first bribery and hassles hurt the bottom line but eventually the company established itself and became very profitable.

A Lonely Logistics Hub in the Desert

¶ 17. (C) Pak mentioned that aviation agreements were a central theme during the Prime Minister's recent visit to Tashkent. Pak reported that Korean Airlines will begin three-times weekly passenger service between Incheon and Tashkent in September, which he said will allow the Sky Team alliance to offer more leisure and business travelers convenient access to Central Asia as well as link up with Russian carrier Aeroflot's network via Tashkent. (Comment: The Korean carrier Asiana already operates its own Incheon-Tashkent

flights several times per week in addition to Uzbekistan Airways' direct flights; the new Korean Airlines flights will make South Korea the most extensively served destination from Uzbekistan after Moscow. Pak did not comment on whether both Asiana and Korean Airlines could be profitable, instead leaving it up to market forces to hammer out. End note.)

¶8. (C) According to Pak, in order for Korean Airlines to secure permission to offer passenger flights to Tashkent, the airline apparently acquiesced to a request by President Karimov for its cargo unit to begin refueling stops at the airport in Navoiy (a small Soviet-era city located in the desert about 350 miles southwest of Tashkent) on long-haul routes to Milan, Italy. Pak said that Karimov devoted the majority of the meeting with the Prime Minister to this pet airport project, which the Uzbeks want to develop as a logistics hub. Pak noted that Korean Airlines will bring "know how" to the project but refused to make any financial investments "since the plan does not make sense" and "would be a financial loss." (Comment: It's difficult to imagine Navoiy as a logistics hub, as ground connections to neighboring countries are poor and the Uzbek State Customs Agency has a fearful reputation. Nonetheless, perhaps this line of thinking bodes well for urging Uzbekistan to forge greater trade and supply links with Afghanistan. In the meantime, the Government of Uzbekistan probably wants photo-ops of Korean jets at the terminal to make flashy brochures touting the hub. End comment.)

¶9. (C) Pak and poloff discussed how the dismal airport

arrival experience at Tashkent is itself a deterrent to visiting potential investors. Passengers are herded from aircraft onto buses, from where they must jockey for position in an interminable and jumbled passport control line before another lengthy wait to collect baggage. The final delay ensues at the onerous customs checkpoint, where arcane and severe currency declaration rules are rigorously enforced. To help remedy the situation, the South Koreans recently brought in a team of aviation planning experts to assess the Tashkent Airport, but the Ministry of Foreign Economic Relations was angered by the negative report and refused to discuss shortcomings at the facility. (Note: Pak said this information in particular was sensitive -- please protect. Meanwhile, we are regularly receiving reports of foreigners, even those working with well-known international organizations, who are detained and threatened with criminal prosecution for attempting to depart the country with more currency than they declared on arrival. Invariably, all money is confiscated. End note.)

Comment:

¶10. (C) Other diplomatic missions in Tashkent have certainly noticed the marked recent improvement in U.S.-Uzbek relations but, if the South Korean viewpoint is any indication, they may believe this has translated into more policy influence than is actually the case. Like a fickle belle at a ball, Uzbekistan will continue to dance with many suitors. Meanwhile, Karimov considers South Korea, which doesn't nag him about human rights issues and patiently waits for long-term change, an easy interlocutor and go-to partner for economic development projects. South Korea is likely hoping that revived U.S. relations may help bring about the change it seeks in Uzbekistan sooner rather than later.

BUTCHER